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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000585

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TAGS: [PGOV](#) [PREL](#) [ENRG](#) [AJ](#) [TX](#) [TU](#)  
SUBJECT: AZERBAIJAN: PENDING BREAKTHROUGH IN TURKMENISTAN  
ENERGY COOPERATION?

Classified By: Ambassador Anne E. Derse, reasons 1.4 (b,d)

11. (C) SUMMARY: President Aliyev told the Ambassador on June 20 that the June 19 Ashgabat visit of a delegation headed by SOCAR President Rovnaq Abdullayev went well, and that Azerbaijan and Turkmenistan "may have some news on gas soon."

In a separate conversation, SOCAR Marketing Vice-President Elshad Nasirov was optimistic that the two countries could reach agreement on joint development of the offshore Sardar-Kapaz field. On the marketing of Shah Deniz Phase Two gas, Nassirov said that SOCAR and the Shah Deniz Consortium are seeking to sell a small enough amount to Turkey so that there is enough gas left to sanction one of the three pipelines (Nabucco, TGI, TAP). Azerbaijan continues its efforts to integrate into regional energy markets and to expand its role as both producer and transit country, and we need to continue to recognize and bolster Aliyev's ongoing commitment and efforts to make the Southern Corridor a reality. END SUMMARY.

12. (U) On June 20 Ambassador Derse and Educational and Cultural Affairs Assistant Secretary Goli Ameri met with President Aliyev, on the margins of which President Aliyev discussed recent energy developments. In a separate June 20 meeting, EnergyOff met with SOCAR VP for Marketing Elshad Nassirov.

TURKMENISTAN  
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13. (C) In a June 20 discussion with the Ambassador and visiting ECA A/S Goli Ameri, President Aliyev reported with great satisfaction that Azerbaijan and Turkmenistan "may have some news to report soon" on gas. The previous day GOTX President Berdimuhamedov had received a delegation led by SOCAR President Rovnaq Abdullayev, discussing energy issues including an upcoming joint GOAJ-GOTX Energy conference to be held in Baku in September. Aliyev said that Berdimuhamedov's reception of SOCAR President Abdullayev was particularly noteworthy since recently he had refused to meet Gazprom President Alexei Miller. Aliyev also pointed out that he himself earlier in the day had met and had good discussions with the visiting head of the Turkmenistan Parliament.

14. (C) In a separate meeting with EnergyOff, SOCAR Marketing Vice-President Elshad Nassirov said he had accompanied SOCAR President Rovnaq Abdullayev for his June 19 Ashgabat trip, where they met with GOTX President Berdimuhamedov amongst other GOAJ interlocutors. A joint Turkmenistan-SOCAR Working Group was formed to prepare for the joint Azerbaijan-Turkmenistan Oil and Gas Conference to be held in Baku, September 9-10. On July 8 the Turkmen members of this working group will come to Baku for further preparations.

The GOAJ side has communicated to the GOTX that were GOTX President Berdimuhamedov to come to Baku for the conference, President Aliyev would also participate. Nassirov confirmed that Executive Director for State Agency for Hydrocarbon Resources Bayrammurad Muradov seemed to be the GOTX main working level POC for bilateral energy cooperation.

15. (C) Additionally, Nassirov confirmed that SOCAR and its GOTX counterparts discussed joint energy sector cooperation. According to Nassirov, finding a mutually agreeable solution for development of the Sardar-Kapaz field is a GOTX precondition for cooperation on other aspects of energy cooperation, to include developing the Livanov (aka "Block One") field. A smiling Nassirov said he was "optimistic" that the two countries would find an agreement on S-K. When asked what the USG could do to assist, he said there was no need for the USG to "push" the GOTX, but that it should continue to point out to the GOTX that gas export westwards is the best guarantor of market prices for the gas sold to Russia.

SHAH DENIZ PHASE TWO  
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16. (C) Nassirov said that SOCAR and the Shah Deniz (SD) Consortium agree that selling Turkey eight billion cubic meters annually of Shah Deniz Phase Two (SD2) gas would "kill" the Southern Corridor project, as there would not be enough SD2 gas left to sanction any of the pipeline projects competing for SD2 gas (TAP, TGI, Nabucco). SOCAR's goal is to sell no more than 4 bcm/a to Turkey, so that there is 6

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bcm/a left for transit to Europe, "enough for one pipeline." In response to EnergyOff's question, Nassirov repeated that SOCAR would seek to sanction one and only one of the three competing pipelines (TGI, TAP, Nabucco) with SD2 volumes.

17. (C) Nassirov repeated SOCAR's longstanding position that the SD Consortium could take no substantive steps on marketing SD2 gas until transit through Turkey was solved. He was doubtful that there was sufficient political impetus to do so within Turkey, given PM Erdogan's campaign pledges of "cheap gas." "The EU needs to push Turkey" to solve transit, otherwise the Southern Corridor project would be stillborn. With the recent blandishments by Iran and Russia, "the SD Consortium now has options," and were Turkey to remain unwilling to provide transit, Azerbaijan would be forced, after selling 4-6 bcm/a to Turkey, to contemplate selling the remainder of SD2 gas to either Russia or Iran.

18. (C) Nassirov denigrated the importance of the various summit and conference proposals being floated in Washington and Brussels - none of these would be of any use until Turkish transit was solved, and none would be needed after it was solved. Concerning SD2 gas to Israel, Nassirov said Israel Minister of National Infrastructure Ben-Eliezer had told him in early June that Israel would use its influence with the USG to ensure gas transit through Turkey to Israel.

When Nassirov already pointed out that the USG was already seeking to use its influence to fix gas transit through Turkey for Europe, Ben-Eliezer replied, "yes, but it is one thing for the US to work on getting transit for Europe, but something entirely different for them to seek to get it for Israel."

SD1  
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19. (C) Nassirov said SD Consortium negotiations over the new price of Shah Deniz Phase One (SD1) gas were "not going well," as Botas was unwilling to present a new pricing model, whereas the existing pricing model results in sub-market prices for SD1 gas, at most USD 240 per thousand cubic meter (COMMENT: As of April 1, 2008, the SD Consortium and Botas were to begin negotiations for a new price for the SD1 gas

being sold to Turkey at USD 120 per thousand cubic meters).

¶10. (C) COMMENT: The GOAJ has taken the lead in cultivating quiet but increasingly confident bilateral energy sector cooperation with Turkmenistan, to apparent good effect, with Aliyev and SOCAR VP Nassirov both buoyed about the latest engagement with the Turkmen. President Aliyev was also pleased to hear that we will soon respond to his request for thoughts on next USG-GOAJ steps to advance the Southern Corridor, especially with Turkey and Europe. Aliyev was very pleased to receive President Bush's congratulatory letter for the 15th Annual Caspian Oil and Gas Exhibition and Conference (read by SE Gray at the Exhibition's opening): his top energy aide told the Ambassador on June 19 that the President had told him that the letter "tells the world" that the United States and Azerbaijan are partners in projects of strategic importance. Azerbaijan continues its efforts to integrate into regional energy markets and to expand its role as both producer and transit country, and we need to continue to recognize and bolster Aliyev's ongoing commitment and efforts to make the Southern Corridor a reality. END COMMENT.  
DERSE